SEI MASTER TRUST

July 2022

Task Force on Climate-related Financial Disclosures (TCFD)

Report for the SEI Master Trust

SEI Trustees Limited

SEI MASTERTRUST
MAF ACCREDITED
Mastertrust Assurance
Developed by ICAEW (Institute of Chartered Accountants in England and Wales

Signatory of:
PRI Principles for Responsible Investment

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EXECUTIVE SUMMARY

The Taskforce for Climate Related Financial Disclosures ("**TCFD**") is an international body which promotes a consistent and transparent approach to reporting the climate impact of organisations, with the goal of increasing available information and therefore better identifying a route to change and minimising the effects of global warming. The taskforce has set out a list of recommendations for how organisations can best consider their impact on the climate.

From 1 October 2021, the Occupational Pension Schemes Regulations 2021 introduced new requirements relating to reporting in line with the TCFD recommendations, to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk. The SEI Master Trust ("**the Trust**") falls within these guidelines and was required to publish the first report within 7 months of the scheme year ending 31 December 2021.

In preparing this Report we have adopted a collaborative process between SEI Trustees Limited (the "**Trustee**"), the Scheme Strategists, our Investment Managers and our Investment Advisers. In assessing the impact of the Trust's investments on climate change, this Report focusses on what the legislation refers to as 'Popular Arrangements' which, for the Trust, are fundamentally represented by the Trust's default investment options which are in turn being utilised by the overwhelming majority of Trust members.

The Trustee sees this Report as a key deliverable to account for how it has identified the impact that the Trust's investments currently have on climate change. From the identified impacts, the Trustee can take appropriate actions to work to reduce our carbon footprint, whether that's through our Investment Managers and their engagement with the underlying companies in which we invest and/or by adopting investment strategies that reduce climate related risks and maximise climate related opportunities.

Within the Report we have outlined the steps we have taken across the Trust to incorporate consideration of these Climate Related Risks and Opportunities ("**CRROs**") within our governance framework and the methods by which we will measure our impact and what we seek to achieve. To do this we have set ourselves some goals and methods of measuring our impact. These are referred to within the Report as 'metrics' and 'targets'.

Whilst there has been widespread global support for the reduction of carbon emissions for many years, the required pace of change has often not met expectations. We have therefore also sought to identify the potential impact of three distinct climate change scenarios, projected to the year 2035.

These three scenarios assume there is either:

- ‘Orderly’ coordinated action that limits temperature increases to around 1.5°C and result in a gradual transition to a net zero economy by 2050, limiting the global average temperature increase to around 1.5oC by 2100;
- ‘Disorderly’ late action, requiring abrupt changes to limit temperature increases to around 2°C. Paris Agreement targets are partly achieved that limit global temperature rise to around 2oC by 2100; or
- No meaningful transition, leading to a ‘Hot House’ scenario resulting in a significant impact on the global climate resulting in a temperature increase of around 3°C by 2100.

We would remind members that this is the first report of its kind being published by the Trustee and as such only covers the period from the legislation commencing and the scheme year end, which for the Trust is the period from 1 October 2021 to 31 December 2021.

The Trustee and its advisers therefore expect that the content of its subsequent TCFD reports will continue to evolve in line with the availability of climate related data and a growing momentum from companies as they transition their businesses to sustainable models. This first Report therefore establishes a baseline from which the Trustee can begin to measure progress.

INTRODUCTION

Background

This Report discloses the processes that the Trustee, in its capacity as trustee of the Trust, has put in place and actions the Trustee has taken during the 2021 scheme year to understand and address the risks and opportunities that climate change poses to the Trust in line with the TCFD recommendations.

Trustees must produce and publish a report, containing the information required by Part 2 of the Schedule to the Climate Change Governance and Reporting Regulations[1], within 7 months of the end of any scheme year in which they were subject to the climate change governance requirements.

The Trustee has been subject to the TCFD recommendations from 1 October 2021 onwards. During 2021, the Trustee reviewed its entire governance framework to seek to ensure that CRRO are integrated at every level and form part of the decision-making processes in relation to the Trust. The Trustee's governance processes and procedures in relation to the Trust are recorded in the Trustee's TCFD Framework document dated 1 October 2021.

The TCFD recommendations are articulated around four pillars: governance, strategy, risk management, and metrics and targets. In this document the Trustee will report on each of these pillars:

- **Governance:** Disclose the organisation's governance around climate-related risks and opportunities.
- **Strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.
- **Risk management:** Disclose how the organisation identifies, assesses, and manages climate-related risks.
- **Metrics and targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

[1] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 [SI 2021/839]

Figure 1: Core elements of recommended climate-related financial disclosures. Source: TCFD

SECTION ONE: GOVERNANCE

Oversight of climate-related risks and opportunities

The responsibility for investment strategy, decision making and governance within the Trust rests with the Trustee. As such the Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities and must establish and maintain oversight of climate-related risks and opportunities.

It therefore maintains strategic oversight and is ultimately responsible for CRRO within the Trust. The Trustee's Investment sub-committee reports at least quarterly on CRRO to the main Trustee Board.

In the months leading up to October 2021, the Trustee worked with its service providers and advisers (in particular SEI as its Investment Adviser and Investment Manager, and Pinsent Masons as its legal adviser) to develop and implement its TCFD framework (the "**TCFD Framework**") for the Trust. The TCFD Framework is primarily an internal document forming part of the Trustee's own governance processes and procedures in relation to the Trust against the four core elements of recommended climate-related financial disclosures.

The TCFD Framework sets out the roles and responsibilities of key stakeholders in terms of assessing and managing CRRO, the impact of CRRO on investments over time, the Trustee's approach to risk management, the Trustee's proposed approach to scenario analysis, and the agreed metrics and targets. The process of developing the TCFD Framework was a collaborative one between the Trustee and its advisers, with all parties reviewing and, where appropriate, challenging others' input in order to ensure that the finished TCFD Framework was sufficiently considered and robust.

In line with the TCFD Framework, the Trustee will:

- Receive regular reports at Trustee meetings (at least quarterly) from its overarching investment managers and engagement services with commentary on the implementation of the Trustee's strategy policies in this area. This includes details of any climate-related engagements over the period. The Trustee challenges its Investment Managers on the information provided to encourage continuous improvement;
- Annually review the Statement of Investment Principles ("**SIP**") and investment strategy in conjunction with SEI in its Investment Adviser capacity. Recent updates to the SIP related to Environmental, Social, and Governance ("**ESG**") regulatory requirements for October 2020 and October 2021;
- Regularly review its CRRO risk register and updates other relevant Trust documents (such as the annual schedule of activities and business plan) where appropriate; and
- Review the TCFD Framework document with its advisers on at least an annual basis.

The Trustee recognises CRRO as a key factor to be considered alongside its broader investment management, in addition to other ESG topics including corporate governance, human rights, labour and environmental standards. The Trustee believes that CRRO, along with other ESG factors, can have an impact on financial performance. Accordingly, the Trustee is satisfied that it is appropriate for it to spend time and resources on its governance of CRRO in relation to the Trust.

SECTION TWO: ROLES & RESPONSIBILITIES

Key stakeholders in assessing and managing climate-related risks and opportunities

The Trustee has established and maintained processes to satisfy itself that its service providers and advisers (excluding legal advisers) take adequate steps to identify and assess CRRO that are relevant to the Trust for the matters on which they are advising.

Other than the Trustee, the following persons either undertake Trust governance activities or advise and/or assist the Trustee in connection with those activities. In respect of each person/entity, the Trustee has set out below:

- How it has satisfied itself that adequate steps are being taken to identify, assess and manage CRRO in relation to the Trust; and
- What information is provided to the Trustee about the consideration of CRRO faced by the Trust.

Investment Adviser

The responsibility for training the Trustee on investment issues, helping develop the Trustee's investment strategy, and advising the Trustee on key aspects of CRRO governance e.g. metrics and targets, scenario analysis, etc. rests with the Investment Adviser, SEI. This type of training will be provided by the investment Adviser on at least an annual basis. The Investment Adviser liaises with the Investment Managers of the funds used in the Popular Arrangement glide path strategies to seek to ensure that CRRO are considered. A Popular Arrangement is considered to be one in which £100m or more of the scheme's assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding assets which are solely attributable to Additional Voluntary Contributions). The Investment Adviser advises the Trustee on at least an annual basis when setting climate-related metrics that are achievable and reportable for the default funds used when compared to their targets on a quarterly basis. The Trustee has agreed an updated SIP for the Trust, on advice from the Investment Adviser, to incorporate the Trustee's CRRO policies in the Investment Advisory Agreement between the Trustee and its Investment Adviser, which sets out the Trustee's requirements in respect of CRRO and places obligations on the Investment Adviser to deliver its advice in accordance with those requirements.

Investment Managers

The Investment Managers appointed and utilised by the Trustee over the period include SEI, State Street Global Advisors, Columbia Threadneedle, BlackRock and BMO. In accordance with the delegation from the Trustee, the responsibility for implementing the Trustee's strategy, stock selection, voting and engagement rests with the Investment Managers and specialist ESG providers hired, managed and monitored by the Investment Managers. As part of the investment reporting to the Trustee the Investment Managers report climate-related carbon emissions and carbon intensity metrics to the Trustee versus targets on at least an annual basis. A proxy is an agent legally authorized to act on behalf of another party. Where the Investment Managers use a 'proxy agent' to vote on their behalf at annual shareholder's meeting, the proxy agent reports climate-related votes cast at company meetings and the engagement partner reports climate-related engagements to company management. The Trustee relies on SEI's comprehensive Investment Manager Research Function to assess Investment Managers and consider the selection of managers whose approaches to ESG issues are in accordance with the Trustee's policies. The full due diligence process for selection of Investment Managers is described in 'Part 3 – Risk Management'.

Scheme Strategists

The responsibility for the design and for developing the proposition and setting the overall direction of the Trust, including CRRO and wider ESG considerations, rests with the Scheme Strategists. Amongst the Scheme Strategists' objectives for the Trust are that the Trust should be innovative and provide 'best of breed' services to members. Meeting this objective requires an ongoing review of the Trust and the availability of enhancements to the investment proposition.

CRRO and wider ESG considerations form part of the Scheme Strategists' decision making regarding the Trust and its future development, and the Scheme Strategists meet regularly with members of the SEI's Investment Management Unit, including the Investment Strategy Group and SEI's Director of Sustainable Investing Solutions, to develop and incorporate best-of-breed thinking in relation to CRRO into the master trust investment proposition. The Scheme Strategists provide updates to proposed, in development and completed enhancements to the Trustee on at least an annual basis.

Changes to the Investment proposition may arise following the annual review of the fund range and/or as a result of investment innovations brought to the Trustee by its advisers. Changes to the investment proposition are implemented and project managed by SEI on behalf of the Trustee.

Skills, Knowledge and Training

The Trustee Directors have undertaken and received a variety of climate-related training. This training has included the whole Board, with group training sessions run by specialist advisers at Pinsent Masons and SEI covering a review of the Draft Statutory Guidance and PCRIG Guidance, with self-study carried out by the individual Directors via e-learning modules on the TCFD Knowledge Hub Online Learning (tcfdhub.org). Specific training on the Trustee's legal obligations relating to Governance, Strategy and Risk Management has also been provided by Pinsent Masons LLP.

The Trustee undertook a skills audit and gap analysis ahead of the August 2021 Trustee Meeting to identify any particular areas where further training was required and requested specific training on the most suitable and readily available metrics so that it could agree suitable targets and scenario analysis. Detailed training on Metrics and Targets was subsequently provided by the SEI Institutional Client Strategy and Advice team to the Trustee and Scheme Strategists.

All Trustee Directors keep a training log recording all training received over the year. As well as training provided by SEI and the Trustee's other advisers, the Trustee Directors are encouraged to attend external training sessions provided by third parties, such as industry bodies. Trustee Knowledge and Understanding ("**TKU**") in relation to CRRO and wider ESG matters forms part of the Trustee's annual self-assessment and the external assessment carried out triennially by an independent third party. This independent assessment has historically been completed by the Trustee's legal advisers at Pinsent Masons.

Any identified gaps will be incorporated into the Trustee's training plan with CRRO being added to the Trustee and Scheme Strategists Fit and Proper skills matrix. All new Trustee directors will be required to demonstrate that they have relevant experience and/or will be required to demonstrate that have completed the requisite courses from the TCFD Knowledge Hub Online Learning session within 6 months of appointment.

SECTION THREE: STRATEGY & SCENARIO ANALYSIS

Establishing Investment Time Horizons

The default investment options that make up the Popular Arrangements were designed with due consideration for members' investment horizons, defined as the period until funds are expected to be withdrawn (either at retirement or during the post-retirement phase). Long-term holdings are those furthest from being paid out, medium-term holdings relate to mid-career members, whilst short-term holdings are those closest to being paid out. Each section of the Trust has been assessed with regard to its membership's general investment horizon to ensure that its investment strategy is appropriate. The Trustee defines the short term as 0-7 years until savings are expected to be paid out, the medium term as 7-15 years, and the long term as over 15 years. The table below sets out the primary investment goal (described as 'lifestyle phase') and the investment risk management objective pertaining to investments with different time horizons.

Liability	Investment horizon	Lifestyle phase	Investment risk management objective
Short-term distributions	0-7 years	Stability	Targeting an efficient level of return for a low risk of short-term loss
Medium-term distributions	7-15 years	Stability and growth while de-risking	Targeting an efficient level of return for an intermediate level of short-term risk
Long-term distributions	15+ years	Growth	Targeting a high level of return for a high level of short-term risk but a low level of long-term risk

The Trustee believes that over short-, medium- and long-term time horizons the carbon emissions and intensities of investment markets (including the funds used in the Popular Arrangements) will reduce. The basis for this belief is that as countries set and implement plans to meet their commitments under the Paris Agreement, governments and companies will, in turn, reduce their greenhouse gas emissions.

SEI has identified several specific CRROs for the above investment horizons as part of its risk management system. The Trustee recognises that climate-related risks are financially material and can impact the value of the investments in which the Master Trust invests over the short, medium and long term. Therefore, it is important that these risks and opportunities are understood and managed. As a diversified asset owner, the range of CRROs are varied and constantly evolving. Climate-related risks associated with the funds used in the Popular Arrangements are managed through shareholder engagement and voting, which helps ensure companies are acting to reduce climate risks over time.

There are two main types of climate-related risks: physical risks (i.e. those relating to the physical impacts of climate change), and transition risks (i.e. risks relating to the transition to a lower-carbon economy). Physical and transition risks exhibit an inverse relationship. Rapid global efforts to reduce emissions will reduce physical risks whilst exacerbating transition risks. Inversely, a more gradual reduction in global emissions may reduce transition risks but result in increased physical risks.

Short, medium and long-term climate-related risks

The following risks may present material financial risk to the underlying companies of the various funds offered/used by the Trust. The Trustee expects that over short and medium-term time horizons the investments are most exposed to transition and acute physical risks. However, over medium and long-term time horizons chronic physical risks will become more significant.

Fund time horizon	Physical risk	Transition risk
Short term	***Acute risks*** that are event-driven, including those that result from severe weather events such as hurricanes, cyclones and floods. Stock price movements resulting from ***physical damage*** to real assets caused by extreme weather events. Severe weather events that impact companies' ***supply chains*** and increase insurance costs. Reduced revenue from ***decreased production capacity*** (e.g. transport difficulties and supply chain interruptions resulting from weather events).	***Policy and legal risks*** as regulations are brought in to address companies' behaviour towards climate change. This may result in stock price falls. For example, from the effects of write-offs, asset impairment, and early retirement of existing assets due to policy changes. ***Market and reputational risks*** may represent the most immediate climate-related risks that a company faces and may crystallise with little advanced warning. For example: – reduced demand for a company's products or services due to increased demand for more environmentally sensitive offerings – prolonged reputational damage resulting in significant loss of customers – perceived exposure or poor climate response may reduce supply of capital or availability of insurance cover – inability to meet business customers' qualifying thresholds for environmental matters – societal pressure for increased regulation or taxation of key business activities – competitors who may move to decarbonise more rapidly

Medium term	***Acute risks but also chronic risks*** as longer-term climate patterns begin to change. ***Write-offs and early retirement of existing assets*** (e.g. damage to property and assets in high-risk locations such as coastal infrastructure assets from rising sea levels).	***Technology and policy risks*** leading to rapid product obsolescence or changes in consumer behaviour, for example: – increased consumer uptake of electric vehicles – increased demand for energy efficiency, renewable energy, battery power storage and carbon capture practices to be utilised by organisations
Long term	***Chronic risks*** resulting from longer-term shifts in climate patterns such as sustained temperature increases that may cause higher sea levels and more regular heat waves. Reduced revenue and profits from ***decreased production capacity and increased costs*** resulting from, for example: – damaged roads, buildings and transit infrastructure – reduced productivity and hours worked by staff – increased health care costs – changes in tourism destinations – reduced agriculture harvests, yields and volumes as well as unstable year-to-year production – reduced construction output – water and food scarcity increasing company input costs – droughts reducing hydropower electricity production – overloaded power grids with the demand for cooling systems. Regular power blackouts and falls in company production	***Stranded asset risk*** resulting in the re-pricing of companies' assets (e.g. fossil fuel reserves, land valuations and securities valuations).

The impact of climate-related risks and opportunities on Trustee strategy

The Trustee assesses the impact of the CRROs it has identified on its investment strategy on an ongoing basis. To inform this assessment SEI has assessed the physical and transition risks associated with the funds employed by the Popular Arrangements under three climate scenarios. These scenarios are covered in more detail in the next section, but essentially the first two scenarios corresponds to alternative pathways towards a low-carbon economy, with the third demonstrating the impact of failing to make that transition. These are respectively referred to below as ‘Orderly Scenario’; ‘Disorderly Scenario’; and ‘Hot House Scenario’:

- **Orderly scenario:** Early, coordinated action limits temperature increases to around 1.5°C. Paris Agreement targets are broadly achieved that result in a gradual transition to a net zero economy by 2050, limiting the global average temperature increase to around 1.5oC by 2100.

- **Disorderly scenario:** Late action, requiring abrupt changes to limit temperature increases to around 2°C. Paris Agreement targets are partly achieved that limit global temperature rise to around 2oC by 2100.

- **Hot House scenario:** Temperate increase assumes warming around 3°C. Targets are not met, resulting in a significant impact on the global climate resulting in a temperature increase of around 3°C by 2100.

The tables below serve as a ‘heat map’ for physical and transition risks, by fund and scenario. Higher risks are coloured red, medium amber, and lower risks green. The ‘heat maps’ offer a qualitative analysis of where risk is concentrated, and are useful for understanding relative concentrations.

Physical risk ‘heat map’ (i.e. for those risks relating to the physical impacts of climate change)

Fund Name	Orderly Scenario	Disorderly Scenario	Hot House Scenario
SEI Factor Allocation Global Equity Fund			
SEI Core Fund			
SEI Moderate Fund			
SEI Defensive Fund			

Transition risk ‘heat map’ (i.e. for those risks relating to the transition to a lower-carbon economy)

Fund Name	Orderly Scenario	Disorderly Scenario	Hot House Scenario
SEI Factor Allocation Global Equity Fund			
SEI Core Fund			
SEI Moderate Fund			
SEI Defensive Fund			

Conclusion

It is readily apparent that transition risk is lowest across all funds under the Hot House scenario. This is because under this scenario, governments and companies take limited action to mitigate climate change risk and essentially continue to operate as they do today. As the structural changes needed to shift to a low-carbon economy do not materialise, the transition risks associated with climate change are muted under this scenario. In essence this means that movement towards a low carbon economy reduces the physical risks of climate change, but increases transitions risk as significant structural changes will be needed. By comparison, failure to transition to a lower economy means that transition risks diminish.

However, given the inverse relationship between transition and physical risk, the latter tends to be higher under the Hot House scenario, particularly for the SEI Factor Allocation Global Equity fund.

Meanwhile, transition risk is maximised across funds under the Disorderly scenario. Under this scenario, a period of climate policy inertia precedes a period of rapid global action. The sudden structural upheaval results in a disorderly transition to a low-carbon economy, which materialises over the medium-term business planning horizon. Companies may be forced to adapt to structural change under this scenario, with limited time to prepare for such changes, leading to adverse financial ramifications.

As discussed in overleaf, scenario analysis does not predict future performance but rather provides a comparative assessment of relative risks under a range of potential outcomes. Here, the analysis tells us that the Master Trust portfolio may be exposed to a range of physical and transition risks, but the degree to which the portfolios are impacted by those risks depends on global mitigation and adaptation pathways.

The Trustee will continue to monitor CRROs on an ongoing basis, and factor any revised climate risk assessments into its investment and funding strategies.

Measuring the resilience of the Trustee's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

The Three Scenarios

At the Trustee's request, SEI has undertaken climate-related scenario analysis on the funds within the Popular Arrangements. SEI leverages third party data and globally-recognized economic and scientific models to assess the financial impact of three distinct climate change scenarios in the year 2035. In choosing to include these scenarios the Trustee has considered not only the projected potential global average temperature rise, but also the nature of the transition to that temperature rise. The scenarios reflect the Trustee's reasoned assessment of plausible pathways:

Scenario A: Orderly transition Early, coordinated action limits temperature increases to around 1.5°C *Paris Agreement targets are broadly achieved*	This scenario represents an orderly transition to a low carbon economy that is broadly in line with the Paris Agreement. This model assumes early and coordinated policies that result in a gradual transition to a net zero economy by 2050, limiting the global average temperature increase to around 1.5oC by 2100 (relative to pre-industrial levels), along with a middle-of-the-road estimate of physical climate change impacts.
Scenario B: Disorderly transition Late action, requiring abrupt changes to limit temperature increases to around 2°C *Paris Agreement targets are partly achieved*	This scenario represents a disorderly transition to a low carbon economy that limits global temperature rise to around 2oC by 2100 (relative to pre-industrial levels). This model assumes late action and/or poorly coordinated policies that result in an abrupt transition to a net zero economy. In this scenario, greenhouse gas emissions peak in 2030, and a middle-of-the-road estimate of physical climate change impacts is considered.
Scenario C: 'Hot House' / No transition Temperate increase assumes warming around 3°C *Targets are not met, resulting in a significant impact on the global climate*	This scenario represents the absence of future improvements in global climate policy, assuming no transition and a continuation of current policy and emissions trends. This lack of action results in a temperature increase of around 3°C by 2100 (relative to pre-industrial levels). This model assumes there is low economic transition risk because there is no risk posed to the underlying securities to transition to a sustainable economy. This scenario implies a more aggressive estimate of physical climate change impacts due to the increased levels of warming that may occur.

Note: SEI has recommended the three scenarios outlined above following the UK DWP's statutory guidance[2]. SEI has adopted the NGFS REMIND model that follows a SSP2 socioeconomic pathway for transition risk and MSCI's proprietary 'Average' and 'Aggressive' extreme weather models for physical risk.

[2] Part 3 Paragraph 62 onwards, DWP "Governance and reporting of climate change risk: guidance for trustees of occupational schemes", June 2021

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The analysis and the results

The scenario analysis has been conducted using the three climate change scenarios highlighted above, with scenarios A and B being the 2°C or lower scenarios. Each of the four funds that constitute the Popular Arrangements have been analysed.

To quantify the financial impact of the CRROs associated with each scenario, we have analysed a Climate Value at Risk ("**CVaR**") metric for each fund within the Popular Arrangements. This metric provides a forward-looking valuation assessment to measure climate-related risks and opportunities within the Popular Arrangements over different time horizons. The Trustee believes that this analysis will enable it to identify CVaR exposures and contributions by sector and security level. It also thinks that this will help it focus its time and resources on the most material issues. It will allow the Trustee to review with its advisers whether adjustments to investment holdings should be made to limit exposures to climate-related risks and maximise exposures to opportunities.

SEI estimates the CVaR to each portfolio according to a range of scenarios that draw on economic and scientific models of the transition and physical risks associated with climate change. The CVaR metric represents the aggregate, estimated, financial impact of a given climate change scenario, represented as a discounted present value. This can be understood as the potential shock to the enterprise market value of the underlying securities in a portfolio that result from not transitioning to a sustainable economy. In most cases this figure represents downside risk, but may, in some circumstances, reflect upside opportunity.

The equation referenced to calculate the aggregate CVaR of a portfolio is the discounted weighted sum of the physical climate risk, plus the upside technology opportunity of the underlying securities.

Climate Value at Risk (CVaR) scenario analysis

1.5°C Orderly Scenario			
Fund Name	**Transition CVaR**	**Physical CVaR**	**Aggregate CVaR**
SEI Factor Allocation Global Equity Fund	-8.38%	-13.78%	-20.43%
SEI Core Fund	-5.56%	-5.36%	-10.71%
SEI Moderate Fund	-9.69%	-9.97%	-19.12%
SEI Defensive Fund	-6.35%	-6.37%	-12.36%

Source: SEI, MSCI. Data as of 31 December 2021. Transition risk analysis references the 1.5ºC NGFS REMIND (Orderly) assessment model that follows an SSP2 pathway for scenario assumptions. Physical risk analysis uses an Average extreme weather risk assumption to model downside potential. Aggregate CVaR represents a weighted sum of the covered positions, capped at +/- 100% for any individual security position. As a result, Transition CVaR and Physical CVaR may not sum to Aggregate CVaR.

2°C Disorderly Scenario			
Fund Name	**Transition CVaR**	**Physical CVaR**	**Aggregate CVaR**
SEI Factor Allocation Global Equity Fund	-19.07%	-13.78%	-27.86%
SEI Core Fund	-15.29%	-5.36%	-19.56%
SEI Moderate Fund	-23.12%	-9.97%	-29.91%
SEI Defensive Fund	-15.69%	-6.37%	-20.19%

Source: SEI, MSCI. Data as of 31 December 2021. Transition risk analysis references the 2ºC NGFS REMIND (Disorderly) assessment model that follows an SSP2 pathway for scenario assumptions. Physical risk analysis uses an Average extreme weather risk assumption to model downside potential. Aggregate CVaR represents a weighted sum of the covered positions, capped at +/- 100% for any individual security position. As a result, Transition CVaR and Physical CVaR may not sum to Aggregate CVaR.

3°C Hot House Scenario			
	Transition CVaR	**Physical CVaR**	**Aggregate CVaR**
SEI Factor Allocation Global Equity Fund	-0.85%	-17.68%	-18.33%
SEI Core Fund	-0.11%	-7.55%	-7.66%
SEI Moderate Fund	-0.59%	-14.08%	-14.63%
SEI Defensive Fund	-0.23%	-9.23%	-9.44%

Source: SEI, MSCI. Data as of 31 December 2021. Transition risk analysis references 3ºC NGFS REMIND (Hot House) assessment model that follows an SPSS2 pathway for scenario assumptions. Physical analysis uses an Aggressive extreme weather risk assumption to model downside potential. Aggregate CVaR represents a weighted sum of the covered positions, capped at +/- 100% for any individual security position. As a result, Transition CVaR and Physical CVaR may not sum to Aggregate CVaR.

Data limitations

Data coverage is the key metric for examining data quality at present. The SEI Core Fund, The SEI Defensive Fund and The SEI Moderate Fund all have very low data coverage. Security level CVaR data is available for a minority of the underlying holdings; in market value terms, data exists for only about 30% of the market value of the funds. To reiterate, the CVaRs for all four funds are calculated as a weighted sum of the data that is available for the underlying holdings, so better coverage implies a more accurate representation of the true fund level CVaR. Data coverage is a challenge for fixed income and government bonds, which constitute larger proportions of The SEI Core Fund, The SEI Defensive Fund and The SEI Moderate Funds and as a consequence, the CVaR figures for these funds do not fully reflect all climate risks associated with the underlying securities. We expect the data coverage/quality to improve over time and assume this may impact the CVaR metrics for the funds in question.

Conclusion

Based on the CVaR analysis above, aggregated climate risk tends to be lowest under the Hot House scenario – across all funds – and highest under the Disorderly scenario. This may seem counterintuitive, but can be understood by examining the physical and transition risks underpinning the CVaR metrics provided.

As mentioned, climate risk comprises both transition and physical risk. Under the scenarios analysed, we see the most variation in transition risk. In particular, there is a significant discrepancy in transition risk across the Disorderly and Hot House scenarios. As previously discussed, under the Disorderly scenario, transition risks are maximized due to compressed timeframes and lack of coordination among actors. Under the Hot House scenario, the operational and policy changes required to transition to a low-carbon economy do not emerge, and so transition risk is minimized.

There is less variation in physical risk than transition risk – we assume average physical risk under both Orderly and Disorderly scenarios, and aggressive physical risk under a Hot House scenario, due to the increased impacts on the climate system in the face of inaction. Over time, we anticipate that continued enhancement of physical climate risk modelling capabilities is likely to result in even greater physical risk projections in a Hot House World.

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SECTION FOUR: RISK MANAGEMENT

Identifying and Managing CRRO: How the Trustee identifies and assesses climate-related risks

The Trustee understands that it must:

- Establish and maintain processes that will enable it to identify, assess and effectively manage climate-related risks which are relevant to the Trust; and
- Ensure that management of climate-related risks is integrated into its overall risk management of the Trust.

CRRO Risk Register

The Trustee has prepared a specific CRRO risk register which it has included as an Appendix to this document. Risks have been prioritised based on materiality, likelihood and financial impact. Whilst sections of the Risk Register are regularly reviewed at Trustee meetings, CRRO risks are specifically reviewed at least annually. As part of the annual review the Trustee's Investment Adviser will highlight those risks most relevant to the Trust and provide recommendations as appropriate relating to any Trustee actions arising, such as advising the Investment Manager of its climate related ESG priorities via the annual ESG survey issued by SEI. The review of all risks relating to the ongoing governance of the Trust forms part of the Trustee's decision-making process and is recorded accordingly in its meeting minutes.

Statement of Investment Principles (SIP)

The Trust has a SIP which sets out the Trustee's investment objectives, its policies on financially material factors (including environmental, social and governance factors) and how it implements these for the Trust as a whole. The SIP also includes details of all investment options used within the Popular Arrangements and available to members as individual 'self-select' options.

The Trustee has, in consultation with SEI European Services Limited, the Founder of the Trust, amended the SIP to incorporate the Trustee's policy on identifying, assessing and managing CRRO in relation to the Trust. The Trustee review the SIP whenever there is any material change in investment policy and at least annually.

Due Diligence

The Trust's investment offering provides access to a range of Investment Managers within a risk controlled framework, ensuring sufficient choice whilst keeping the selection process straightforward for members. Fundamental to the investment proposition is SEI's 'Manager of Manager' fund range which facilitates manager changes within the fund without out of market exposure or the costs associated with transitions, white labelling or blending.

Underpinning SEI's investment solutions as Investment Manager is the foundation in manager research and selection. Managers are not hired on the basis of ESG ratings and

SEI has not set a minimum threshold. However, SEI's well-established approach to manager research includes a proprietary ESG scoring system. Every firm and investment strategy that is considered by SEI as the 'Manager of Managers' undergoes an ESG due diligence review and receives a score of Strong, Moderate, Limited or Weak. The Investment Manager's final ESG evaluations are based on the following factors:

Firm Assessment

- **Profile**: Analysis of the extent of the manager's sustainability practices in a broad sense, as well as its commitment to sustainable investing.

- **Resources**: Evaluation of how well resourced the manager is to achieve its sustainable investing goals. This can be viewed as the bridge between the manager's words and its actions.

- **Practices:** Assessment as to how the manager actually implements sustainable investing in its investment process. This helps to distinguish true sustainable investing from "greenwashing," or presenting false integration of sustainable investing practices to attract clients.

Investment Strategy Assessment

- **Investing:** Analyse the strategy's integration of ESG factors, taking into account degree of materiality in affecting investment decisions and portfolio construction, quality of data and analytics employed, and alignment across the strategy's investment team.

- **Stewardship:** Evaluate the strategy's approach to stewardship, focusing on reporting capabilities and the intensity and thoughtfulness of issue engagement.

In addition to the SEI Fund Range, members have access to additional 'external' fund managers, including a range of Passive, Factor-based, UK Property and Ethical investment options. These include State Street Global Advisors, BlackRock, BMO and Columbia Threadneedle. The Trustee formally reviews each of these managers at least every three years and more frequently if required. This purpose of the review is to reassess the fundamental characteristics of the existing Fund Managers to ensure they remain appropriate, focusing on Philosophy, Product, People, Investment Process and Portfolio Construction and Performance.

With effect from the most recent review in 2020 the trustee has specifically requested an assessment of each manager's approach to ESG issues. Each of the external managers received a 'Strong' Firm ESG rating in the 2020 Investment Manager Review. Furthermore the Trustee receives quarterly updates from the SEI Investment Strategy Group highlighting whether there has been any variance from its original assessment of the provider, including all of the fundamental characteristics and its ESG rating.

Vendor Management

When procuring any third party services the Trustee has requested that all potential suppliers are asked about their CRRO planning and compliance and business continuity as part of its provider selection process. This forms part of the Trustee's decision-making process for shortlisting and selection. CRRO planning and compliance and business continuity is also to be included in any subsequent benchmarking review process post appointment.

Business Plan

The Business Plan is updated by the Scheme Strategists at least annually and is subsequently reviewed by the Scheme Funder and Trustee prior to approval. As part of each update the Scheme Strategist will take CRRO into account and document this within the updated Business Plan.

Scheme Calendar

The Trust's annual calendar has been updated to include the following:

- Annual TCFD report, incorporating:
  - An assessment of the climate risks facing the Popular Arrangements;
  - A review of the Trustee's CRRO governance framework; and
  - A qualitative assessment of the CRROs associated with the funds contained in the Popular Arrangement (i.e. Metrics of the funds and their benchmarks, and a review against the targets).

- Triannual climate-related scenario analysis review and interim annual reports (climate Value at Risk – CVaR)

- Investment strategy review (quarterly) including a review of the metrics and performance analysis

The review intervals for the items recorded on the Trust's annual calendar are for business as usual operations. In the event that a material change occurs, the Trustee will instigate one or more reviews of the various items as it believes to be appropriate.

Identifying, assessing, and managing climate-related risks and integrating them into the Trustee's risk management processes

The Trustee is early in the journey towards long-term management of climate-related risks and opportunities. As such, establishing effective governance structures, tools and processes for *identifying* climate-related risks and opportunities has been central to the Trustee's ability to *manage* climate-related risks and opportunities.

Building on the processes described above, the Trustee seeks to use climate-related metrics (described in Section 4) and Scenario Analysis (described in Section 2) to monitor the effectiveness of its risk management activities going forward. Over time, the Trustee will look for metrics that indicate transition risk, such as carbon footprint, total emissions and weighted average carbon intensity, to decline.

The Trustee will also monitor trends in the results of climate-related scenario analysis, while recognizing that the quality of climate change models evolve over time and therefore comparison of scenario analysis results across time frames may not be appropriate. For example, new physical risk models may take into account new scientific projections about interrelated impacts and positive feedback loops. Meanwhile, transition risk models may evolve to take into account the pace of policy change, progress towards country-level goals, and technological advances.

For Investment Funds that exhibit multi-year trends towards rising transition risk, the Trustee and its advisers will engage with the Funds' portfolio manager to understand what is driving that trend (e.g. macroeconomic trends, changes to portfolio strategy, or investments in specific securities). The Trustees recognize that not all investments in carbon intensive companies are misaligned with the management of climate-related risks and opportunities; for example, heavy emitters with ambitious science-based targets or with low-carbon products and solutions are likely to play an important role in the transition to a low-carbon economy.

Recognising that most climate-related metrics are backwards facing and may not fully capture forward-looking plans, the Trustee believes that proactive and collaborative engagement with companies is critical to the long-term management of climate-related risks and opportunities. The Trustee maintains oversight of the Investment Manager's shareholder engagement activity, monitoring action and progress through the Core Process Metrics defined in Section 4. Through its involvement in collaborative engagement activity, including Climate Action 100+, the Trustee has assessed that the Investment Adviser and Manager are contributing to the long-term management of climate related risks and opportunities at investee companies through improvements in climate change governance, greenhouse gas mitigation, and disclosure practices. Enhanced disclosure, in particular, will lead to the continued improvement of climate-related data that will, in turn, improve the quality of climate change data, the Trustees' selected metrics, and scenario analysis.

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SECTION FIVE: METRICS & TARGETS

Metrics used by the Trustee to assess climate-related risks and opportunities

The Trustee will be disclosing the following on an annual basis within its TCFD report:

1. One absolute emissions based measure: Total Carbon Emissions in CO_2e
2. Two intensity emissions based measures: Weighted Average Carbon Intensity ("**WACI**"), and Carbon Footprint, and;
3. Additional measures; three engagement metrics specified below and proxy voting

<u>**Core Outcome Metrics**</u>

Absolute: Total Carbon Emissions in tCO_2e

This measures the total greenhouse gas emissions attributable to a portfolio and is expressed as tonnes (t) of carbon dioxide (CO_2) equivalent (e) – i.e. tCO_2e. 'Carbon dioxide equivalent' is a standard unit for counting greenhouse gas emissions regardless of whether they're from carbon dioxide or another gas, such as methane. For each holding within a portfolio, its associated total carbon-equivalent emissions can be prorated according to the investor's ownership share – this metric is the sum of these prorated amounts. In other words, this metric represents the sum of the *proportionate* carbon emissions of the holdings in the portfolio based on the investor's ownership share.

This metric gives a sense of the scale of the carbon emissions associated with each fund holding in the Popular Arrangements and the potential reduction in emissions required to assist the transition to a net zero economy.

The Total Carbon Emissions data associated with the funds used in the Popular Arrangements is shown below. To be clear, the tCO_2e figures are not representative of the total emissions associated with each fund; rather, they represent the emissions associated with the SEI Master Trust's holding in each fund.

Please note metrics are currently not produced for the SSgA Sterling Liquidity Fund (invested within the Popular Arrangements at the point that members might be expected to withdraw tax free cash) due to a combination of poor data coverage and the lack of an established methodology for calculating such metrics for money market funds. The Trustee will review this position annually to monitor if it changes.

The tables below also set out the data coverage for each of the funds in question. Coverage for each of the funds is expressed as the percentage of the fund's total market value for which there is Scope 1 and 2 greenhouse gas emissions data, meaning that the coverage figures take into account the relative size of the underlying security positions.

The total carbon emissions data for the funds used within the Popular Arrangements is shown below.

Fund Name	Coverage	Total Carbon Emissions (attributable to the Master Trust)
	(% MV)	*(tCO_2e)*
SEI Factor Allocation Global Equity Fund	97%	972
SEI Core Fund	51%	311
SEI Moderate Fund	39%	3,691
SEI Defensive Fund	13%	299

Source: MSCI ESG Fund Ratings (publically available data sourced from https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings). We have expressed in tCO_2e. Note, only includes Scope 1 and 2 emissions at present due to lack of availability of Scope 3 data. Effective date: 31 December 2021.

Intensity: Weighted Average Carbon Intensity ("WACI")

This is a key (backward-looking) metric for measuring a fund's exposure to carbon intensive assets, expressed in tonnes of CO_2e per millions of pounds of sales. This metric provides a broad indication of how heavily a portfolio's underlying holdings are involved in the emission of greenhouse gases. As this metric is standardised it can be readily used for comparative purposes. For a given fund, the WACI is calculated as the weighted average of the carbon intensities of the underlying holdings, whereby the weights are the percentage allocations to each holding. This metric can be used across equities and corporate bonds.

The WACI data for the funds used within the Popular Arrangements is shown below.

	Coverage	Weighted Average Carbon Intensity
	(% MV)	*(tCO_2e / £M sales)*
SEI Factor Allocation Global Equity Fund	97%	85
SEI Core Fund	51%	129
SEI Moderate Fund	39%	203
SEI Defensive Fund	13%	178

Source: MSCI ESG Fund Ratings (publically available data sourced from https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings). We have expressed in tCO_2e / £M sales. Note, only includes Scope 1 and 2 emissions at present due to lack of availability of Scope 3 data. Effective date: 31 December 2021.

Intensity: Carbon Footprint

Carbon footprint tells the Trustee how many tonnes of CO_2e emissions were produced by a particular portfolio for each million pound invested. For the funds used within the Popular Arrangements, the carbon footprint is measured the same way as Total Carbon Footprint (above) but scaled per £M invested in the fund. This metric may facilitate comparison across sectors, portfolios and companies and is therefore useful for internal and external purposes.

A drawback of this metric is that increasing security prices can result in falling carbon footprints, without a commensurate fall in carbon emissions. In addition, the metric does not capture differences in the size of companies, nor the carbon efficiency of their production processes etc. relative to other companies within the same industry.

The carbon footprint emissions data for the funds used within the Popular Arrangements is shown below.

Fund Name	Coverage (% MV)	Carbon Footprint (tCO_2e / £M invested)
SEI Factor Allocation Global Equity Fund	97%	80
SEI Core Fund	51%	80
SEI Moderate Fund	39%	94
SEI Defensive Fund	13%	78

Source: MSCI ESG Fund Ratings (publically available data sourced from https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings). We have expressed in tCO_2e / £M invested. Note, only includes Scope 1 and 2 emissions at present due to lack of availability of Scope 3 data. Effective date: 31 December 2021.

Core Process Metrics

Shareholder engagement metrics

The Trustee is a strong advocate of investment stewardship as an effective way to enact change and ensure companies in the portfolio are adequately managing CRRO. The Trustee will report the following three metrics relating to engaging with companies on CRRO: companies engaged on CRRO, Climate Action 100+ companies engaged, and companies achieving milestones on CRROs.

Engagement metrics
Companies Engaged on CRRO
The number of engagements with companies held by the Investment Manager on CRRO: the Investment Manager will in conjunction with their specialised climate engagement partners assess the key climate risks & opportunities in the portfolio holdings and proactively engage to enhance shareholder value. The number of such engagements will be measured.
Climate Action 100+ Companies Engaged
The number of engagements with companies through the Climate Action 100+ initiative: the Investment Manager, through specialised climate engagement partners, will participate in climate-related engagements each year with some of the targeted companies as part of the initiative. The number of such lead engagements will be measured.
Companies achieving milestones on CRRO
The number of engagement milestones achieved on climate-related issues: companies are targeted for engagement and progress is logged, recording examples of positive change (‘milestones’) over each year. The number of milestones achieved each year will be measured.

SEI MASTER TRUST

Q4 2021 Engagement Data

Fund	Companies Engaged on CRRO	Climate Action 100+ Companies Engaged	Companies achieving milestones on CRRO
SEI Factor Allocation Global Equity Fund	23	5	1
SEI Core Fund	129	29	9
SEI Moderate Fund	34	8	5
SEI Defensive Fund	45	12	4

Source: Data reflects all of SEI's climate change engagement activity for funds in the Popular Arrangements for quarter ended 31 December 2021.

Shareholder voting policy

Shareholder voting is used in conjunction with engagements to effect meaningful change in corporate behaviour. The table below sets out SEI's shareholder voting data (with respect to CRRO issues) for the funds used within the Popular Arrangements. SEI, as Investment Manager, uses a proxy voting service for all of its UCITs funds (including all those made available by SEI within the Trust) which brings consistency and high standards to the proxy research and voting decisions made on behalf of the Trust. The Trustee expects all votes to be cast in line with its voting policy and will periodically review policies and evaluate whether any voting policy changes would be appropriate. The Trustee will report upon compliance with this policy.

Shareholder Proposals on Environmental Issues					
Fund	**Total**	**Voted For**	**Voted Against**	**Votes with management**	**Votes against management**
SEI Factor Allocation Global Equity Fund	1	1	0	1	0
SEI Core Fund	31	16	15	22	9
SEI Moderate Fund	5	4	1	3	2
SEI Defensive Fund	2	2	0	0	2

Source: Data reflects all of SEI's UCITS Proxy Voting activity for quarter ended 31 December 2021.

Disclosure of Emissions Data (Scope 1, 2, and 3) and Related Risks

Scope 1, 2, and 3 Emissions data

The Trustee has disclosed the above metrics using Scope 1 and Scope 2 emissions data.

Essentially, Scope 1 and 2 are those emissions that are owned or controlled by a company, whereas Scope 3 emissions are a consequence of the activities of the company but occur from sources not owned or controlled by it.

At present, Scope 3 data is not widely available and the Trustee has decided to exclude Scope 3 data from the calculations. Scope 3 emissions are the indirect emissions from sources connected to a business, such as suppliers or distributors. Methodologies with regards to Scope 3 data are less established and many companies are only beginning to analyse their Scope 3 emissions. Given the lack of comprehensive Scope 3 data, metrics will be measured versus targets based on Scope 1 and 2 emissions. However, this will be kept under review and the reliability of Scope 3 emissions will be re-assessed by the Trustee annually.

The information for the above metrics will be obtained via SEI's third party independent data provider.

Using an independent, competitively sourced data provider brings confidence that the Trustee is using good quality, unbiased market data.

Data coverage

Data coverage is the key metric for examining data quality at present. The data coverage of the Popular Default funds is shown in the table below.

Coverage for each of the funds is expressed as the percentage of the fund's total market value for which there is Scope 1 and 2 emissions data, meaning that the coverage figures take into account the relative size of the underlying security positions. For asset classes where data is not available or best practice is still being developed, data coverage is nil.

The Trustee is mindful of the lack of coverage in certain areas of the market, in particular, fixed income and government bonds. The Trustee expects that over the coming years, data quality will likely improve.

Fund Name	Data Coverage
	(% MV)
SEI Factor Allocation Global Equity Fund	97%
SEI Core Fund	51%
SEI Moderate Fund	39%
SEI Defensive Fund	13%

Data limitations and keeping metrics under review

The limitations we face today are not necessarily limitations we will face in the future, as this is an area that is changing rapidly, with research organisations continually developing new metrics and companies generating better data.

The Total Carbon Emissions, Weighted Average Carbon Intensity and Carbon Footprint are all backward-looking metrics. While useful to measure for the companies held in portfolios they do not consider these companies' future expected carbon emission projections. Moreover, they do not consider scientifically robust targets and business plans that companies may have put in place to reduce future carbon emissions. Consequently, going forward the Trustee intends to consider measuring forward-looking carbon emissions metrics as well as backward-looking ones.

The Trustee proposes the above metrics as necessary starting points. However, the Trustee will build in reviews to ensure that the selection of metrics and targets is appropriate in light of the evolving regulatory landscape.

The Trustee will also review data as it becomes more complete and meaningful (such as Scope 3 emissions and forward-looking Alignment data). One can therefore expect metrics to evolve over time.

Using the metrics / targets to enact strategy decisions

The Trustee will monitor climate-related metrics and targets through the Trust's investment reports. This will create Trustee discussion around CRRO over short-, medium- and long-term time horizons. It also allows the Trustee to determine if CRRO are being appropriately acted on and it enables the Trustee to adapt default glide path design and fund selection if it wishes to change the implementation of its strategy on CRRO.

Targets used by the Trustee to manage CRRO and performance against targets

The Trustee uses targets to track its climate-related metrics and to manage CRRO. The Trustee has set meaningful targets that are in line with its investment and climate objectives. The Trustee is taking a measured approach to setting climate-related targets and will continue to review how it can use additional quantitative analysis and recognised industry frameworks to allow it to set meaningful climate-related targets. The Trustee is of the view that its approach to stewardship, including engagement and voting activities, is part of its effort to have meaningful climate-related impacts.

The Trustee has set the following targets for its Popular Arrangements. On an annual basis, the Trustee measures performance of the metrics against the targets and will report these in its TCFD report. Taking into account performance, the Trustee will periodically determine whether the climate-related targets should be retained or replaced.

Core process shareholder engagement and voting metrics

Shareholder engagement is the primary method for effecting changes in corporate behaviour, rather than excluding stocks and disengaging with climate-related issues.

The Trustee will review and disclose the climate-related voting metrics from the Investment Managers, which typically show that a high level of climate and environmental votes having been voted on (excluding shareholdings in jurisdictions where vote blocking inhibits voting).

The Trustee will endeavour to ensure full compliance with the shareholder voting policy. The Trustees' primary climate-related targets, which will be reviewed as at 31 December 2022, are as follows:

Core Process Shareholder Engagement metrics	Number reported over reporting period	Annual Target
Companies Engaged on CRRO	139	20 or more
Climate Action 100+ Companies Engaged	29	5 or more
Companies achieving milestones on CRRO	11	15 or more

Core outcome metrics: absolute and intensity-based

The current limitations on both the scope of the data and its backward - rather than forward-looking - nature means it is appropriate to be cautious about targets based on this type of data. The Investment Manager and the Trustee believe that targets that would result in exclusionary polices based on backward-looking data could lead to worse outcomes for both the successful transition to a net-zero economy and the portfolio's risk and return prospects. For these reasons, we will continue efforts through active ownership to manage CRRO and to monitor the available carbon metrics, but not to manage exclusionary policies around them.

For the funds used in the Popular Arrangements, the Trustee will target reductions in WACI, Carbon Footprint and Carbon Emissions over rolling three year periods which are in line with the reductions in appropriate market indices that broadly reflect the investment strategies of these funds. WACI, Carbon Footprint and Carbon Emissions are expected to reduce, as described in the section on short-, medium- and long-term time horizons, due to shareholder engagements and government policies.

Given the risks surrounding reducing carbon emissions and the Trustee's focus on investment stewardship and proactive engagement as an effective tool for managing CRRO, the Trustee's short, medium and long term ambitions are to:

- Reduce the impact of the Trust's investments on climate ;
- Harness climate-related opportunities to generate investment returns for our members; and
- Invest Trust assets in a manner that minimises our members' exposure to climate risk.

The intersecting and cross-industry nature of CRRO (see section CRRO Impacting the Trust) means that climate considerations must be actively managed in the portfolio and cannot simply be addressed by disinvesting from certain sectors or business activities.

The Trustee will use best endeavours to report WACI, Carbon Footprint and Carbon Emissions dependent on the data available from data providers.

Climate-related opportunities

The efforts to mitigate and adapt to climate change will likely result in new opportunities, such as through resource efficiency and cost savings, the adoption and utilisation of low-emission energy sources, the development of new products and services, and the building of resilience along the supply chain. Climate-related opportunities will vary depending on the region, market and industry in which an organisation operates.

One way that climate-related opportunities are captured in the Popular Arrangements is through members' long-term growth fund, the SEI Factor Allocation Global Equity Fund. The investment advisor of the fund, takes into account ESG factors when constructing the investment portfolio of the fund, although it should be noted that such factors are not the primary driver of security selection or weighing.

The ESG factor aims to measure features which may affect companies in a form of additional unanticipated costs or opportunities over long-term horizons, such as:

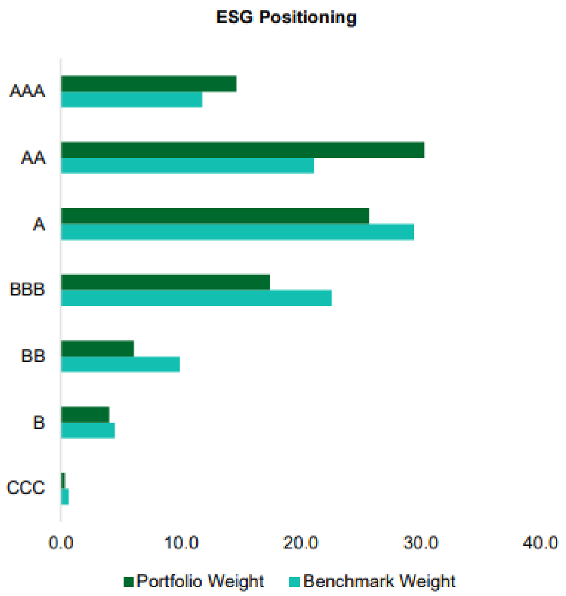
- climate change;
- pollution;
- human capital;
- social opportunities;
- corporate governance; and
- corporate behaviour.

In doing so, the investment adviser may make adjustments to the exposure of the fund to a particular security based on the security's ESG rating, with a higher weighting being given to securities which are rated highly for their overall sustainability performance. The investment adviser's use of ESG considerations is not primarily based on investment or market considerations

MSCI ESG Rating

MSCI ESG Ratings aim to measure the management of financially relevant ESG risks and opportunities by companies, equity and fixed income securities, loans, mutual funds, ETFs and countries. MSCI use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. Their ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).

The MSCI ESG Rating of the Factor Allocation Global Equity Fund as at 31 December 2021 was 'AA' as demonstrated overleaf.



Source: SEI, FactSet, MSCI. Benchmark: MSCI ACWI. As at 31 December 2021. The chart compares the respective weightings of the SEI Factor Allocation Global Equity Fund and its performance and risk benchmark to stocks of each MSCI ESG Rating (AAA to CCC). MSCI ESG ratings are determined by combining key ESG issue scores and weights, and are relative to industry peers. Please note the performance and risk of SEI Factor Allocation Global Equity are monitored relative to the MSCI ACWI benchmark index which captures large and mid cap representation across 23 developed markets and 26 emerging market countries. . For more information on MSCI ESG ratings see https://www.msci.com/our-solutions/esg-investing/esg-ratings

Signature of Chair

This Report was approved by the Trustee on 12 [July 2022 and signed on its behalf by:

Capital Cranfield Pension Trustees Limited
Chairperson (represented by Allan Course)

APPENDIX:
REGISTER OF CLIMATE RELATED RISKS & OPPORTUNITIES

	A. KNOWLEDGE AND UNDERSTANDING					
	RISK	**IMPACT (1-5)** **(1=LOW, 5=HIGH)**	**LIKELIHOOD (1-5)** **(1=LOW, 5=HIGH)**	**CONTROLS**	**OVERALL RATING** **(1-8: Green / 9-16: Amber / 17-25: Red)**	**COMMENTS**
1.	Key persons, such as Trustee directors and Scheme Strategists, do not have sufficient knowledge and understanding to be able to identify, assess and manage CRRO in relation to the Trust.	4	1	• Trustee directors [and Scheme Strategists] have completed training provided by the TCFD Hub. New Trustee directors [and Scheme Strategists] are required to complete this training within 6 months of appointment. • CRRO included as part of the Trustee's annual training programme. • All Trustee directors and Scheme Strategists are required maintain and demonstrate CPD appropriate to their role and responsibilities and complete Annual Skills Assessment. • Trustee's and Scheme Strategists' Annual Skills assessment updated to incorporate ESG and CRRO specifically. • Independent Triennial Review of the Board to consider whether TKU is sufficient to manage CRRO in relation to the Trust.	4	

2.	Trustee's appointed Investment Managers do not keep abreast of developments in this area.	5	1	• Trustee carries out Triennial Review on all Investment Managers, with managers' ESG capabilities assessed. • Triennial Reviews will specifically explore managers' approach to CRRO and establish whether considered best of breed. • The Trustee has the power to change or appoint additional Investment Advisers if required.	5	

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B. INVESTMENT PERFORMANCE AND GOVERNANCE						
	RISK	**IMPACT (1-5)** **(1=LOW, 5=HIGH)**	**LIKELIHOOD (1-5)** **(1=LOW, 5=HIGH)**	**CONTROLS**	**OVERALL RATING (1-5)** **(1-8: Green / 9-16: Amber / 17-25: Red)**	**COMMENTS**
1.	There is a fundamental failure in the integration of financially material considerations around CRROs in the Trustee's investment strategy and fund choices in the Popular Arrangements.	5	1	The Trustee monitors that CRROs are sufficiently considered in the funds used in the Popular Arrangements by monitoring the climate-related engagements, shareholder voting and portfolio positioning being undertaken by the Investment Manager and the specialist providers. The Investment Adviser ensures that consideration of CRRO is integral to the investment strategy advice that is provided to the Trustee.	5	
3.	There is a failure by third party providers in supplying data on shareholder voting, shareholder engagements, carbon emissions or carbon emission intensities.	4	3	The Investment Manager has processes in place to ensure that (a) best-in-class specialist providers are selected to supply climate-related shareholder voting, company engagement and carbon emissions data provision services, (b) performance is monitored, tested and challenged as necessary. The Investment Manager will monitor these services and if standards are insufficient will select a different service provider	12	*This is the first year in which this data is being requested and so the Trustee anticipates that there could be difficulty obtaining all the data required as the industry adjusts. This will be kept under close monitoring and alternative providers can be sought if required.*

	C. REPORTING AND COMPLIANCE					
	RISK	IMPACT (1-5) (1=LOW, 5=HIGH)	LIKELIHOOD (1-5) (1=LOW, 5=HIGH)	CONTROLS	OVERALL RATING (1-5) (1-8: Green / 9-16: Amber / 17-25: Red)	COMMENTS
1.	Trustee directors do not produce annual TCFD Report in accordance with legislative requirements/timescales.	4	1	• The provision of the TCFD report has been added to the Trustee's Scheme Calendar. • The provision of the report will be considered within the Risk and Operations sub-committee due to be formed in October 2021. • The Trustee's TCFD Framework Agreement provides the starting structure for the TCFD and some of the intended content. • TCFD will be considered and developed at each Risk and Operations sub-committee Reviewed with progress reported at main Trustee meetings to ensure that it is provided well within legislative requirements/timescales.	4	

	D. OPERATIONS, COSTS AND SUPPLIERS					
	RISK	**IMPACT (1-5)** **(1=LOW, 5=HIGH)**	**LIKELIHOOD (1-5)** **(1=LOW, 5=HIGH)**	**CONTROLS**	**OVERALL RATING (1-5)** **(1-8: Green / 9-16: Amber / 17-25: Red)**	**COMMENTS**
1.	The Trust's operations are directly impacted by climate-related physical risks e.g. extreme weather.	4	1	• The Trustee assesses all significant vendors' Business Continuity prior to appointment through SEI's Vendor Management Team, and on at least an annual basis thereafter. • The Trustee also assesses SEI's Business Continuity testing annually as the Trust provider,	4	
2.	The cost of running the Trust increases as a result of the additional activities required to identify and assess CRRO.	2	1	• The Scheme Funder has provided a commitment to the Trustee through its Deed of Agreement to meet all costs arising from the Trust. • The Scheme Strategists and Funder update the Trust's Business Plan at least annually taking account of factors that could impact the cost of operating the Trust. • Budgets are agreed at least annually between Scheme Strategists and Funder, with additional resources provided by the Scheme Funder to meet any increase in costs and to further develop the Trust as required.	2	